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I. Overview of the Enhanced Integrated Transmission & Capacity Construct (EITCC)

Capacity Market Summary of Incremental Modifications		
Common Area	**Local Area**	
	Non-Local Obligation	**Local Obligation**
Largely unchanged		New local sub-obligation

- Status quo is not without issue
  - Should not be economically rationale to want to broadly retire resources in a specific area (which produces a broader local area adequacy issue)
  - Equally unacceptable where situation does not allow enough time for transmission
- Capacity model needs some local element (not balkanized) AND transmission planning needs to look further out, to consider what ifs, and to build the "highway" system

II. Common Misconceptions

- Existing Construct
  - Fails to attract resource investment
    - Theoretical short comings impressive until tested against actual practice
  - Over-reliance on shorter-term capacity markets
    - Daily markets are only around 1% of volume
    - Many market participants have much longer horizons, such as regulated utilities, utilities with longer default obligations, state auction suppliers, municipals, cooperatives, owners of unregulated generation fleets, etc.
  - Capacity market is digital with a "vertical demand" curve (i.e. either zero or the deficiency rate)
    - Prices are a function of time and risk
      - Look at last 3 Planning Years auction prices versus eventual daily result
    - Market is not digital, even if daily prices are under certain circumstances
- RPM
  - The Market is the "Equilibrium" Model
    - Necessary to avoid boom and bust
    - Offers savings to consumers
  - Requires the ultimate in granularity for local markets
    - Local capacity plus LMP (amongst other revenue streams)
  - Neutral or a positive for bilateral transactions
  - Value of a common time step or solution for both generation and transmission
    - Ignores longer lead time solutions while prematurely forcing commitment to shorter lead time investments
  - Nature of competition between generation and transmission
    - Only occurs if merchant project
    - Otherwise based on minimalist reliability investment level

III. Market versus Administrative Process

Market Interaction	RPM	EITCC
Method to Accomplish	Administrative process with net revenue or cost of service determinations for a particular asset via equilibrium models	Market process where the properly defined obligations when cleared provides a solution and discovers the price
Responsible Party for Procuring	PJM	Party serving load
Prices	Administrative curve	Forward curves and bulk of transactions set by willing buyers and sellers at mutually agreeable prices
Term and Volume	Forced clearing of all "projected" obligations (load plus all growth) for 4-years out	Each participant manages the term and hedge levels consistent with business profile
Bilaterals	Impedes the long-term market relative to today or either of the PJM CMMWG alternatives	Key element of how the market clears
Revenue Adequacy Goal for Particular Asset	Yes	No
State Default Provider Auctions	Reduces the size of the value chain where participants can differentiate themselves	Volume and term compliment EITCC
Complexity Test	272 business rules and 46 pages (Version 7.0 dated February 24th 2005)	61 business rules on 8 pages (for the current market dated August 17th 2004 before EITCC)

- Focus on resource adequacy and NOT revenue adequacy of a particular asset class
  - Excess supply in a capital-intensive industry should produce low prices and sub-par returns for some (put aside the legitimate local issue not properly captured in price)
    - Do not confuse low prices today with low prices later
  - Deregulating industries usually offer uneven returns amongst various types of assets
    - Acceptable as a market outcome
    - Not acceptable to overlay administrative solution for full return on lowest performing asset class and then pay this to all assets
      - Certain lower utilization assets but for unique circumstances (e.g. local value) might never earn a full return going forward
  - New supply can take many forms and can change over time if the market is allowed to function
    - Industry structure, artificial demand curves, and starting position alter range of potential outcomes
- Clearing the market under the EITCC
  - More visible system and local area supply and demand
    - Local Percentage Obligation set and fixed 3 years ahead of the Planning Year
    - Installed Reserve Margin set and fixed 3 years ahead of the Planning Year
  - Improve forward price transparency via regular longer dated voluntary PY auctions
- Comments on RPM
  - RPM is at best not the only solution and at worst not a solution
  - A promise to pay a price for a single year 4-years away not proven its ability to attract new resources